

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 FEA-02 L-03 STR-08 SS-20

NSC-07 INT-08 DRC-01 EA-11 /153 W
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P 072309Z MAR 74

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 9167

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 1846

E.O. 11652: GDS

TAGS: BEXP, ENRG, EMIN, PE

SUBJ: TRANS-ANDEAN PIPELINE FINANCING ALTERNATIVES

REFS: LIMA 1593, 1726, 678, A-47

SUMMARY: TWO PRINCIPAL GOP AGENCIES RESPONSIBLE FOR CONSTRUCT-
ION (PETROPERU), AND FINANCING (COFIDE) OF PIPELINE, WILL
SHORTLY CONSIDER A PROPOSAL FOR A GLOBAL FINANCING PACKAGE
WHICH BANK OF AMERICA (B OF A) IN PROCESS OF PREPARING.
PACKAGE WOULD INCLUDE ALL FINANCING (APPROXIMATELY \$400
MILLION), INCLUDING PIPE, CONSTRUCTION, AND EQUIPMENT IN
CONSORTIUM ARRANGEMENT WITH TWO OTHER MAJOR FOREIGN BANKS AS
PRINCIPAL CO-LENDERS. PETROPERU, AT OPERATING LEVEL, MEAN-
WHILE, IS PROCEEDING ON THE BASIS OF A PIECEMEAL APPROACH TO
FINANCING SEPARATE PARTS OF PROJECT INDIVIDUALLY. COFIDE, FOR
ITS PART, PROBABLY LEANS TOWARD GLOBAL PACKAGE CONCEPT SINCE
IT OFFERS ONE BASIC SOURCE OF FINANCING AND MORE RAPID AND
LESS COMPLICATED OPERATIONS ALTHOUGH COFIDE REMAINS
OFFICIALLY NONCOMMITTAL TO DATE. IN REGARD TO POTENTIAL EXIM
ROLE FOR US COMPANIES, PETROPERU SEES EACH COMPETITOR ASKING
FOR SEPARATE EXIM CREDITS WHEREAS COFIDE WOULD PREFER TO HAVE
ACCESS TO A GENERAL LINE OF EXIM CREDIT ON WHICH IT COULD
DRAW AS IT CHOSE FOR PIPELINE PROCUREMENT. COFIDE HAS ASKED
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THE EMBASSY TO EXPLORE THIS POSSIBILITY WITH DEPARTMENT. AS

DEPARTMENT IS AWARE, EMBASSY HAS CONSISTANTLY SUPPORTED U.S. INVOLVEMENT IN TRANS-ANDEAN PIPELINE PROJECT AS CONSISTENT WITH U.S. EFFORTS TO OBTAIN ACCESS TO ADDITIONAL SOURCES OF PETROLEUM AND AS MEANS OF SIGNIFICANT EXPORT PROMOTION.
END SUMMARY

1. EMBASSY HAS NOW DISCUSSED IN DEPT PRESENT STATUS OF FINANCING FOR PIPELINE WITH PETROPERU, COFIDE, AND B OF A, SEEKING IN PARTICULAR INFORMATION ON POSSIBLE FUTURE ROLE OF US COMPANIES AND AVAILABILITY OF FINANCING THROUGH EXIM. PETROPERU'S CHIEF OF PIPELINE OPERATIONS REVIEWED PRESENT STATUS OF PIPELINE FROM TECHNICAL STANDPOINTS AS FOLLOWS:

A) SEVEN FOREIGN COMPANIES, INCLUDING THREE US, WILL SUBMIT BIDS TO PETROPERU APRIL 29. BIDS WILL INCLUDE FOUR SPECIFIC ELEMENTS: 1) CONSTRUCTION PLANS; 2) PRICE; 3) PLANNED PORTION OF LOCAL VS. FOREIGN EXCHANGE COSTS (AN IMPORTANT ELEMENT IN GOP'S FINAL DECISIONS, ACCORDING TO SOURCE); AND 4) FINANCING MECHANISM. THE PIPELINE WILL BE CONSTRUCTED IN THREE "SPREADS" (SECTIONS) WITH SEPARATE BIDS BEING SUBMITTED ON EACH SPREAD, SO IT POSSIBLE ONE COMPANY COULD BE CHOSEN FOR ALL THREE, ALTHOUGH THIS NOT LIKELY. FINAL DECISION ON WINNING COMPETITOR(S) TO BE MADE NO LATER THAN MID-JUNE.

B) FINANCING WILL BE ARRANGED INDIVIDUALLY BY EACH COMPANY FOR EACH PART OF PROJECT. FOR EXAMPLE, BIDS HAVE ALREADY BEEN RECEIVED FROM SWISS AND BRITISH FIRMS (LATTER USING SOME US EQUIPMENT) FOR PUMPS, AND GAS TURBINES, FOR APPROXIMATELY \$17-18 MILLION. OTHER SEPARATE BIDS WILL BE CONSIDERED FOR SUCH ITEMS OF EQUIPMENT AS GENERATORS, STATION HOUSES, ETC. WITH RESPECT TO THREE US COMPANIES WHICH EXPECT TO COMPETE FOR CONSTRUCTION CONTRACT, PETROPERU OFFICIAL THOUGHT THEY ARE PROBABLY PLANNING TO APPLY DIRECTLY TO EXIM. EXIM TERMS, AS WELL AS OTHER FINANCIAL DATA, WOULD THEN BE CONTAINED IN EACH BIDDER'S INDIVIDUAL PROPOSAL. (THESE FIRMS ARE DIAMOND SERVICE, SEDCO INT'L, AND WILLIAMS INT'L. EMBASSY A-47 ERRONEOUSLY REPORTED THAT BECHTEL WOULD ALSO BID. BECHTEL IS RESPONSIBLE FOR ONLY ENGINEERING STUDIES AND GENERAL TECHNICAL ADVICE AND SUPERVISION, BUT NOT ACTUAL CONSTRUCTION.)
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C) OFFICIAL VOLUNTEERED THAT THIS "PIECEMEAL" APPROACH TO FINANCING WAS UNWIELDY AND UNFORTUNATE, BUT THAT IT IS NONE-THELESS WHAT PETROPERU ENVISAGES FOR THE PRESENT. MEANWHILE, COFIDE HAS BEEN CHARGED WITH ULTIMATE RESPONSIBILITY FOR ARRANGING FINANCING AND HAS GOP AUTHORIZATION TO ACCEPT LOAN COMMITMENTS UP TO \$330 MILLION, LITTLE OF WHICH HAS YET BEEN OBTAINED.

D) OFFICIAL SAID THAT JAPANESE PETROLEUM DEVELOPMENT CORPORATION IS STILL IN REGULAR CONTACT WITH PETROPERU BUT THAT JAPANESE HAVE NOT MADE ANY RECENT PROPOSALS AND IT UNLIKELY, UNLESS THEY MAKE UNEXPECTED CONCESSIONS, THEY WILL GET CONSTRUCTION CONTRACT. OFFICIAL SAID STUMBLING BLOCK TO ACCORD WITH JAPANESE WAS NEITHER PRICE NOR VOLUME OF PETROLEUM JAPANESE WOULD RECEIVE IN PAYMENT BUT PERCENTAGE OF CRUDE VS. REFINED PRODUCTS. PRESIDENT VELASCO HAD HELD OUT FOR HIGH PERCENTAGE OF REFINED PRODUCTS WITH CONSEQUENTLY GREATER VALUE ADDED FOR PERU WHEREAS JAPANESE WANTED MOST OF SUPPLY TO BE IN FORM OF CRUDE. IMPASSE IS UNLIKELY TO BE RESOLVED.

2. LOCAL B OF A MANAGER, TOGETHER WITH VISITING VICE PRESIDENT FOR REGIONAL AFFAIRS OF HIS BANK GAVE EMBASSY OFFICERS FULL EXPLANATION OF B OF A PROPOSAL FOR GLOBAL FINANCING PACKAGE. IN BANK'S VIEW, EFFECTIVE WITHDRAWAL OF JAPANESE FROM PIPELINE CONSTRUCTION PROJECT HAS LEFT PETROPERU FLOUNDERING WITHOUT GUARANTEED FINANCING FOR PIPELINES, WHILE POTENTIALLY INCREASING INTEREST RATES AND DECREASING AVAILABILITY OF MATERIALS AS WELL AS VERY TIGHT INTERNATIONAL MONEY MARKET COULD POSTPONE CONSTRUCTION FOR ALONG PERIOD OF TIME IF GOP DOES NOT AGREE PROMPTLY TO COORDINATED PACKAGE FOR CONSTRUCTION AND FINANCING. B OF A HAS THEREFORE BEEN PREPARING GLOBAL FINANCING PACKAGE, AS FOLLOWS:

A) \$400 MILLION TOTAL PACKAGE TO COVER ALL EQUIPMENT, PIPE, AND CONSTRUCTIONS COSTS;

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ACTION EB-11

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C O N F I D E N T I A L SECTION 2 OF 2 LIMA 1846

B) B OF A WOULD JOIN WITH ONE ASIAN BANK (PROBABLY JAPANESE) AND ONE EUROPEAN BANK (PROBABLY BRITISH) TO SEEK SUBSTANTIAL CAPITAL IN THREE MONEY MARKETS ON BEHALF OF PERU. CONDITION OF PACKAGE WOULD BE THAT PERU WOULD NOT COMPLICATE FINANCING BY ATTEMPTING TO OBTAIN ANY OTHER CREDITS FOR SEPARATE PROJECTS IN INTERNATIONAL MONEY MARKET DURING PERIOD OF TIME THREE PRINCIPAL CO-LENDERS WORKING ON FINDING NECESSARY CAPITAL (WHICH COULD WELL COME FROM CONSORTIUM OF 50-60 BANKS).

C) EXIM ROLE. ARRANGING FOR CONCESSIONARY FINANCING FROM US AND OTHER COUNTRIES (IF APPROPRIATE) WOULD BE RESPECTIVE RESPONSIBILITY OF THREE PRINCIPAL PARTNERS IN CONSORTIUM. IN US CASE, B OF A WOULD MAKE NECESSARY ARRANGEMENTS WITH EXIM THEREBY AVOIDING INDIVIDUAL REQUESTS FROM INDIVIDUAL CONSTRUCTION AND SUPPLY FIRMS. B OF A OFFICIALS COMMENTED THAT PETROPERU IS THINKING IN TERMS OF FIVE-YEAR GRACE AND FIVE-YEAR REPAYMENT TERMS, TERMS WHICH GENERALLY MORE LIBERAL THAN NORMAL EXIM TERMS, AT LEAST INSOFAR AS THEY ARE AWARE.

D) B OF A OFFICIALS BOTH STRESSED THAT VERY TIGHT INTERNATIONAL MONEY MARKET MAKES IT IMPERATIVE FOR GOP TO DECIDE IN VERY NEAR FUTURE WHETHER TO ACCEPT PACKAGE. ONE POTENTIAL PROBLEM THEY ANTICIPATE IN THIS REGARD IS THAT PERU COULD PROBABLY NOT OBTAIN A COMMERCIAL BANK RATE LOWER THAN 1.25 PERCENT ABOVE LIBO. CONFIDENTIAL

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UNFORTUNATELY SOME CABINET MEMBERS WHO ARE UNSOPHISTICATED IN MONEY MATTERS, ARE UNDER THE IMPRESSION THAT PERU CAN AUTOMATICALLY GET 1 PERCENT BECAUSE OF THE SPECIAL MORGAN GUARANTY LOAN ARRANGED IN CONNECTION WITH THE RECENT INTER-GOVERNMENTAL AGREEMENT WHICH SETTLED INVESTMENT DISPUTES.

E) GLOBAL PACKAGE WOULD INCLUDE \$80 MILLION (LOAN BY B OF A TO PETROPERU) FOR PURCHASE OF GERMAN AND JAPANESE PIPE. B OF A IS WILLING TO ORGANIZE A SYNDICATE FOR FINANCING THE PURCHASE OF THIS PIPE BUT HAS NOW SUGGESTED TO COFIDE ADVANTAGE OF ORGANIZING GLOBAL FINANCING.

F) B OF A HAS DISCUSSED GLOBAL LOAN WITH GENERAL FERNANDEZ BACA AND MINISTER MARCO DEL PONT AS WELL AS WITH BANCO DE LA NACION AND BANCO CENTRAL DE RESERVA. ALL EXPRESSED INTEREST AND B OF A AWAITING REQUEST FROM GOP BEFORE PRESENTING DETAILED PACKAGE. B OF A PLACING EMPHASIS IN DISCUSSIONS WITH GOP ON FACT THAT PIECEMEAL APPROACH WILL COST MORE, AND IN SOME CASES, CAUSE CONSIDERABLE DELAYS. OFFICIALS SAID GOP BASICALLY INEXPERIENCED IN ARRANGING PACKAGES OF THIS NATURE AND THEREFORE CAUTIOUS, PARTICULARLY SINCE PIPELINE SUCH A SENSITIVE

POLITICAL ISSUE.

3. IN SEPARATE CONVERSATION WITH EMBASSY OFFICERS, COFIDE OFFICIAL RESPONSIBLE FOR FINANCING SAID COFIDE IS INTERESTED IN B OF A PROPOSAL AND WILL STUDY IT SERIOUSLY. THEY DID NOT INDICATE (ALTHOUGH THEY MAY BELIEVE THIS TO BE THE CASE) THAT COFIDE FEELS IT IMPERATIVE TO MOVE ON A GLOBAL PACKAGE IN ORDER TO TIE DOWN FINANCING IN TIMELY FASHION. THEY CONFIRMED PETROPERU'S STATEMENTS THAT PROJECT IS PRESENTLY BEING FINANCED PIECEMEAL, WITH PETROPERU CURRENTLY IN PROCESS OF WORKING OUT BIDS NOT ONLY FOR CONSTRUCTION, BUT ALSO FOR EQUIPMENT, INCLUDING TURBINES, GENERATORS, ETC. COFIDE ROUGHLY CALCULATES FINANCING COSTS AS FOLLOWS: PIPE - \$80 MILLION; OTHER EQUIPMENT - \$50 MILLION; CONSTRUCTION COSTS - \$170 MILLION IN FOREIGN EXCHANGE, PLUS \$50 MILLION IN SOLES; TOTAL: \$350 MILLION.

4. COFIDE OFFICIALS EXPRESSED SKEPTICISM ABOUT FUTURE ROLE OF EXIM IN PERU, SAYING THAT EXIM PROBABLY WOULD NOT BE ABLE MEET PERUVIAN CREDIT GUIDELINES. (CENTRAL GOVERNMENT GUIDELINES ON FOREIGN DEBT PROHIBIT LOANS WITH GRACE PERIODS OF LESS THAN THREE YEARS.) COFIDE OFFICIALS ALSO COMMENTED THAT EXIM CREDITS CONFIDENTIAL

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ENTAIL LARGE AMOUNTS OF PAPERWORK, AND EXTENSIVE FOLLOW-UP REPORTING. NOTWITHSTANDING THESE VIEWS, THEY NONETHELESS SPECIFICALLY ASKED EMBASSY OFFICERS TO QUERY WASHINGTON ABOUT THE POSSIBILITY THAT EXIM WOULD BE INTERESTED IN OFFERING A GENERAL LINE OF CREDIT TO COFIDE FOR USE IN PIPELINE PROJECT, STRESSING THAT LINE OF CREDIT DEVICE WOULD AVOID ALLEGEDLY EXCESSIVE ADMINISTRATIVE REQUIREMENTS, PERMITTING COFIDE NECESSARY FLEXIBILITY.

5. COMMENT-ACTION: WHILE IT POSSIBLE THAT GOP WILL BE ABLE TO PUT TOGETHER TOTAL PIPELINE PROJECT FINANCING ON PIECEMEAL BASIS, IT APPEARS LIKELY THAT MATERIEL SHORTAGES, HIGHER COMMERCIAL INTEREST RATES, MASSIVE ADMINISTRATIVE WORKLOAD, AND LIKELY DELAYS COULD SERIOUSLY IMPEDE PROJECT UNLESS A GLOBAL PACKAGE (ALONG LINES OF THE B OF A PROPOSAL) WERE ACCEPTED BY GOP. ALTHOUGH THERE IS NO DIRECTROLE FOR US TO PLAY (EXCEPT TO FOLLOW ANY SPECIFIC REQUESTS FROM US COMPANIES OR BANKS TO EXIM FOR INDIVIDUAL EXPORT CREDITS) UNTIL GOP ITSELF SORTS OUT ITS PRIORITIES, GIVEN EXTREME IMPORTANCE GOP ATTACHES TO PROJECT AND FACT THAT GREATER US INVOLVEMENT COULD MATERIALLY ASSIST US IN OBTAINING SHARE OF PETROLEUM PRODUCTS WHEN PROJECT COMPLETED, WE WOULD LIKE TO BE AS FORTHCOMING AS POSSIBLE WITH GOP.

6. WE WOULD THEREFORE APPRECIATE DEPARTMENT'S AND EXIM'S VIEWS ON TWO POINTS:

A) DOES EXIM CONSIDER GENERAL LINES OF CREDIT TO STATE

DEVELOPMENT BANKS FOR SPECIFIC PROJECTS, AND, IF SO, WHAT ARE
GENERAL GUIDELINES FOR SUCH LINES OF CREDIT?

B) IS THERE ANY OTHER INFORMATION OR STEPS WHICH APPROPRIATE
WASHINGTON AGENCIES OR EMBASSY CAN NOW TAKE TO FACILITATE
CONCESSIONARY TERMS OF INTEREST (THROUGH EXIM) FOR POTENTIAL
US SUPPLIERS AND/OR BUILDERS OF PIPELINE?

6. EMBASSY INDEPENDENTLY REQUESTING COMMERCIAL ATTACHE RUEDA
TO DISCUSS POTENTIAL EXIM INTEREST WITH DEPARTMENT AND EXIM
WHEN HE IS IN WASHINGTON IN NEXT FEW DAYS (SEE LIMA 1593).
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Message Attributes

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